



# Fiscal Outlook and FY 25 Proposed Budget Development

City Council Study Session – March 19, 2024

# Mayor & City Council's FY 24 Budget Accomplishments & Achievements

Significant enhancements and efficiencies developed toward achieving the Long Beach Strategic Vision 2030, including \$27M of one-time uses for critical investments without increasing the General Fund shortfall.



Launched a new Elevate 28 program, for a total 5-year Capital Improvement Plan of \$758M to revitalize the City's infrastructure, prepare for the 2028 Olympics, and continue to improve and enhance City parks, major corridors, and visitor-serving areas.

# **General Fund: FY 23 Recap & FY 24 Mid-Year Review**

# FY 23 General Fund Year-End Status Recap

- FY 23 Year-End Performance Report on February 13, 2024.
- FY 23 ended with \$19.5 million in one-time funding, with an additional \$4.6 million available for priority/critical one-time purposes.
- Year-end status included a release of \$15.5 million in planned reserves
- The City has retained Long Beach Recovery Act Funding to address future shortfalls (longer than the two fiscal years as originally planned)

# FY 24 General Fund Mid-Year Under Review

- Adopted FY 24 Budget projected a \$8.8 million shortfall to be covered on a one-time basis with Long Beach Recovery Act funds
- FY 24 General Fund (and other funds) status is under review; Mid-Year FY 24 Performance Report anticipated in June 2024
- This status review will be informative and significant as it is the first comprehensive review that will include labor agreement cost impacts (in the General Fund and non-General Fund Groups)

# **General Fund FY 25 Trends & Budget Balancing Strategy**

# FY 25 General Fund Shortfall Projection Update

- Preliminary General Fund Projected Fiscal Outlook presented on January 16, 2024.
- Changes include increased expenditure estimates and even greater increased revenue assumptions.

# FY 25 General Fund Shortfall Projection Update Since January

**The Projected FY 25 Shortfall is \$23.5 million**

Incremental Change View	\$ in Millions
<b>Preliminary FY 25 Shortfall Projection*</b> <i>(January 2024)</i>	<b>(\$28.4)</b>
<i>Projected Additional Expenditure Increase</i>	<i>(\$14.9)</i>
<i>Projected additional Revenue Increase</i>	<i><u>\$19.8</u></i>
<b>Updated FY 25 Shortfall*</b>	<b>(\$23.5)</b>

\*FY 25 shortfall projection includes carryover of FY 24's \$8.8M structural shortfall solved on a one-time basis using Long Beach Recovery Act Funding.

# Key FY 25 Expense Projection Changes since January

Overall Expense Projections increased by \$14.9 million

- Increase to the General Fund's share of **Citywide Internal Services (Civic Center, Technology, & Fleet)** primarily due to labor increases, also includes natural cost increases to contracts, materials, & equipment



Civic Center, Fleet & Technology  
+**\$6.5m higher** than previous projection

- Significant **CalPERS pension** cost increase due to a negative 7.5% investment return from FY 21/22 (14.3% below expected). Starting in FY 25, rates ramp up over 5 years to cover loss.

CalPERS Pension Costs  
+**\$9.1m higher** than previous projection

# Key FY 25 Expense Projection Changes since January (Continued)

- **Workers Compensation** rate recalibration in FY 25 necessary to recoup for increased expenditures. Rates have remained flat in recent years. Following this rate recalibration, less significant cost impacts are anticipated in future years.



Workers  
Compensation  
Costs  
**+\$4.6m higher** than  
previous projection

- Projected expenses include \$3M for other critical needs to be identified through the budget process.

# Key FY 25 Revenue Projection Drivers Since January

Overall Revenue Projections increased by \$19.8 million

**Transient  
Occupancy Taxes**

*(including Measure B)*

+\$2.3M higher  
than previous

**Property Tax**

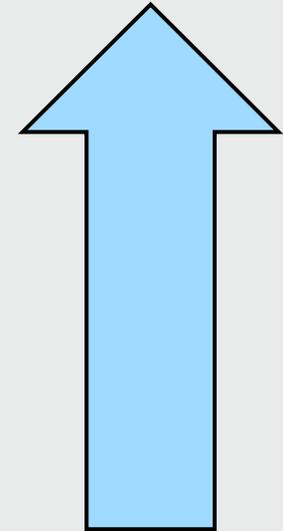
+\$4.6M higher  
than previous

**Interest Pooled  
Cash**

+\$5.4M higher  
than previous

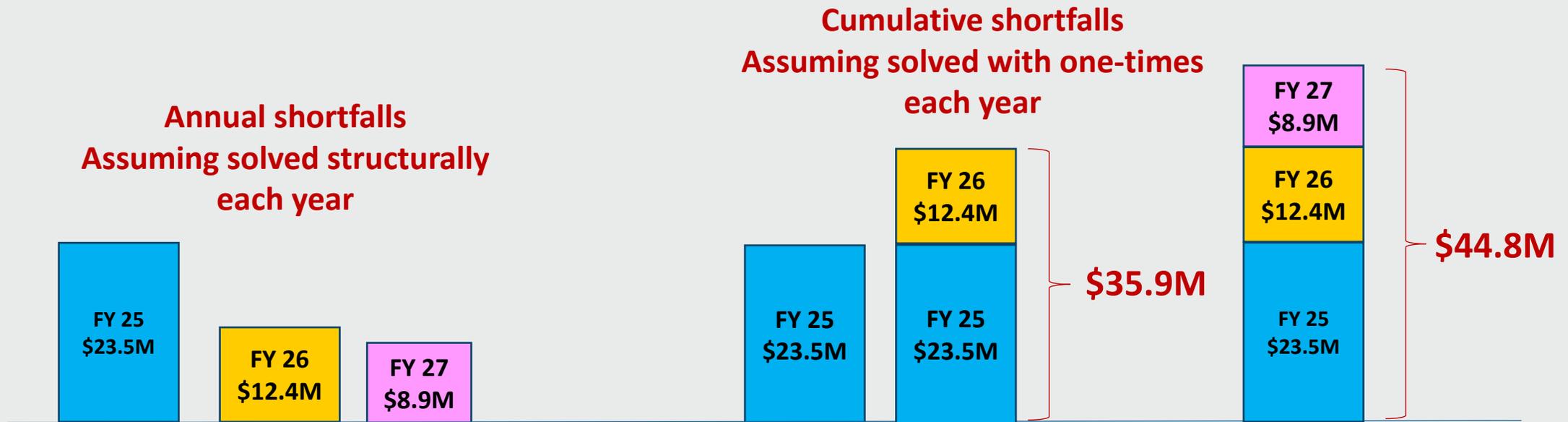
**Utility Users  
Taxes**

+\$5.3M higher  
than previous



# FY 25 Budget Balancing Strategy for General Fund

- Utilize one-time Long Beach Recovery Act funds
- No General Fund expense reduction targets for individual departments during FY 25 Budget preparation



# FY 25 Budget Approach

- The fiscal goal is not to increase the projected underlying General Fund shortfall—moving forward with caution and remaining fiscally disciplined.
- The strategic goal is to identify any needs that are legally mandated, safety related, and/or critical to maintain operations and in line with executing the Long Beach 2030 Strategic Vision.
- Due to the projected structural shortfall and limited current resources, these enhancement priorities may not be able to be funded in FY 25.

# **Long-Term General Fund Forecast FY 26 to FY 30**

# The Forecast for FY 26 and Beyond

## General Fund Surplus/ (Shortfall) in \$ Millions\*

	FY 25 Proj*	FY 26 Proj	FY 27 Proj	FY 28 Proj	FY 29 Proj	FY 30 Proj	Cumulative Shortfall (FY 25 – FY 30)
<b>Previous Projection</b> (January Budget Study Session)	(28.4)	(7.5)	(6.9)	(10.3)	(13.2)	(5.0)	<b>(71.3)</b>
<b>Updated Projection</b>	(23.5)	(12.4)	(8.9)	(14.6)	(14.8)	(7.1)	<b>(81.3)</b>
<b>Change</b> Improvement/(Worsened)	<b>\$4.9</b>	<b>(\$4.9)</b>	<b>(\$2.0)</b>	<b>(\$4.3)</b>	<b>(\$1.6)</b>	<b>(\$2.1)</b>	<b>(\$10.0)</b>

\*FY 25 includes \$8.8M shortfall carried over from Adopted FY 24 Budget and solved on a one-time basis with Long Beach Recovery Act Funding.

# Key Expenditure Variables in the Future Forecast

- **Salary and Benefit costs:** for years with no contracts (FY 26+ for Public Safety and FY 27+Miscellaneous) an inflationary assumption is included. Vacancy rates assumed to drop from current high level.
- **CalPERS Pension costs:** projecting higher cost increases in the out years to recoup investment return loss from 2021/2022.

\$ in Millions	FY 25	FY 26	FY 27	FY 28	FY 29	FY 30
<i>Previous Projection of Change</i> W/ (7.5)% IR - 6/30/22	\$5.7	\$4.6	\$5.4	*	*	*
<i>Updated Projection of Change</i> W/ 5.8% IR - 6/30/23	\$14.8	\$6.5	\$5.8	\$8.5	\$12.4	\$3.6

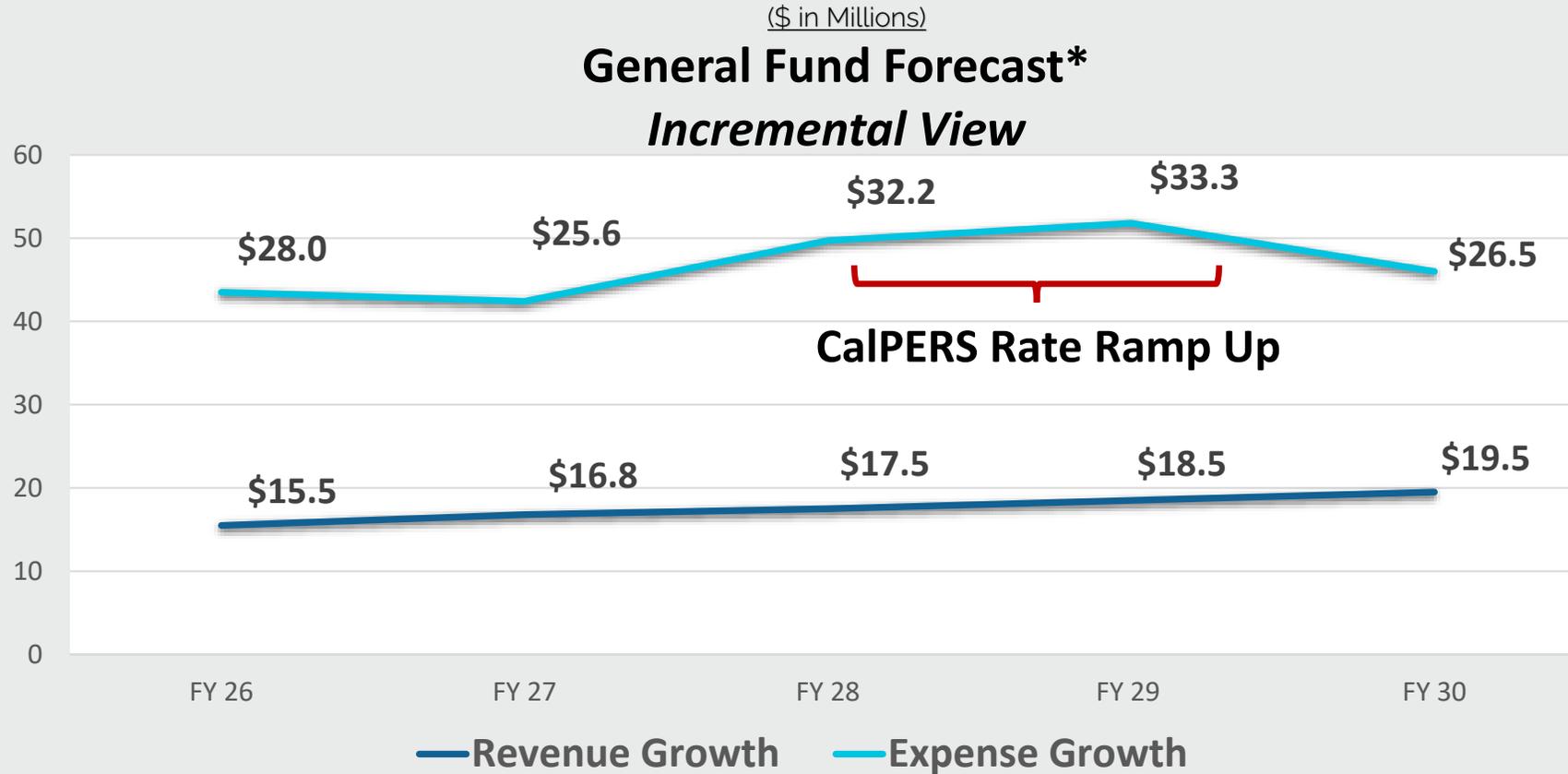
- **Inflation/cost increases:** assumptions for general cost increases due to inflation.

# Key Revenue Variables in the Future Forecast

- Outyear Projections assume no recession, and normal growth factors
- Fiscal impacts from Grow Long Beach efforts are not yet known, however, as benefits are realized the impacts will be included in future projections
- **Sales & Use Tax and Property Tax** – Future year projections assume normalized growth at 3% annually after FY 25
- **Interest Pooled Cash Revenue** – Continued higher interest rates applied to somewhat higher cash balances lead to significantly higher interest earnings in FY 25. After that, no annual growth assumed.

# General Fund Forecast: Expense & Revenue Growth

## Expenditure Growth Outpaces Revenue Growth

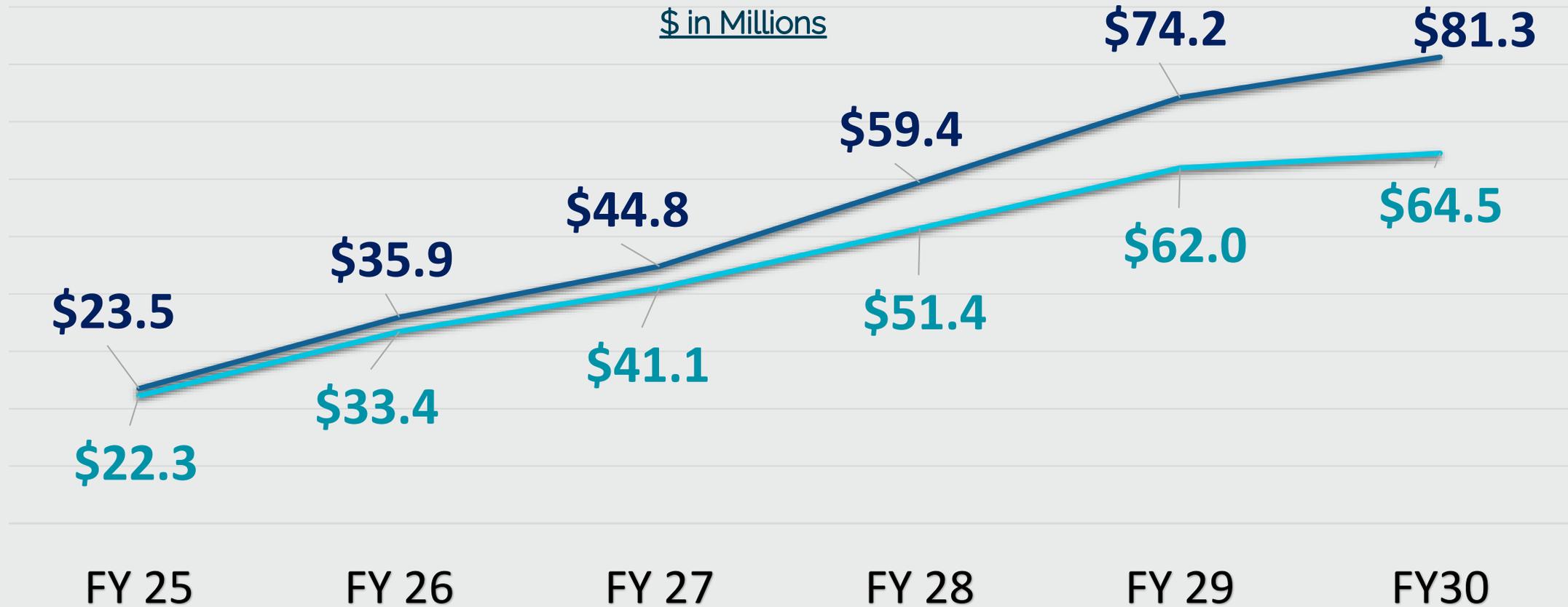


*\*Excludes Measure A Revenue and Expenditures*

# General Fund Strategy to Reduce Reliance on Oil Revenues

- January projections for FY 25 included \$8.3M from Uplands Oil proceeds and Oil Production taxes including Prop H & Measure US that support:
  - *Core City Services (including Public Safety)*
  - *Children and Youth Services & Programs , Community Health, and Climate Change & Environment*
- Starting in FY 25, the City will reduce annual planned structural support from oil proceeds and taxes down to \$0 by FY 30.
- The strategy will reallocate Measure A pay-as-you-go infrastructure funding to avoid harmful reductions to core City services like Public Safety and Children and Youth Services
- Annual oil revenue received above the budgeted levels will be available for one-time uses and/or future oil well abandonment

# Projected General Fund Shortfall – With and Without Continued Reliance on Oil



- Latest shortfall projection, without reliance on oil
- Shortfall projection with continued reliance on oil

# Measure A, Tidelands & Other Funds

# Measure A

- The FY 24 Budget expanded the City’s Infrastructure Investment Plan (Elevate ‘28) identifying an additional \$55.7M from Measure A over the next 4 years to support the \$758m Elevate ‘28 plan.
- Measure A revenue trend shows growth across restaurants and hotels, projections impacted by lower FY 23 revenues from fuel and service stations and slowed one-time use tax.

Measure A Revenue (\$ in millions)							
FY 23	FY 24	FY 25	FY 26	FY 27	FY 28*	FY 29	FY 30
Actuals	Projection						
\$68.8	\$64.5	\$65.8	\$67.8	\$69.8	\$95.9	\$98.8	\$101.7

\* Measure A rate increases from 0.75% to 1% due to County Measure H sunset.

# Measure A (Continued)

- Assume Measure A reallocation to preserve public safety operation following phase out of General Fund revenue dependence on oil
- Oil revenue phaseout is greatest beginning FY 28 when Measure A tax rate reverts to the full 1% (from 0.75% now)

# Tidelands Operating Fund

- Tidelands Operating Fund supports operations (Police, Fire, Lifeguards), programs, beach maintenance, capital projects, and development of beaches and waterways in the Tidelands area
- Although revenue sources are varied and includes charges for services, parking fees, and MOU revenue for public safety services, the fund is heavily dependent on annual oil revenue
- Structural revenue from oil is budgeted at \$55/bbl and is projected to decline from \$14.6M in the FY 24 Budget to \$2.7M by FY 30
- Projected decline is due to regulatory actions reducing production activities starting in FY 23 and SB 1137 starting in FY 25. Under these conditions, the available fund balance is in danger of being depleted as soon as FY 26.

# Other Key Funds

- **Related Funds** not issued FY 25 reduction targets like the General Fund, but are instructed to keep costs as low as possible.
- **Special Advertising and Promotion Fund (SAP)** –Transient Occupancy Tax (TOT) has fully recovered from the pandemic and revenue projections anticipate growth in FY 25 and beyond. Higher revenues received will help SAP remain structurally balanced, and possibly grow funds available.
- **Health Fund** – Funds available decreasing due to grant restrictions which limit grant funding for certain costs (e.g., technology, general city). A study is underway to evaluate the fund and identify strategies.

# Next Steps

# Community Engagement Efforts and Feedback

- For the 3<sup>rd</sup> year, community engagement in January, prior to the proposed budget process
- Budget Survey conducted in January with 846 survey respondents
- 4 in-person meetings and 1 virtual meeting, prioritized Language Access with interpretation services, American Sign Language, and translated materials
- Detailed demographic tracking to better inform future outreach
- Feedback results will be transmitted via Memo Spring 2024



# Path to Proposed Budget and Budget Adoption

- Departments will be developing budget proposals and reviewing them with City Manager through May
- Budget Book built, and numbers finalized through June
- Proposed Budget book due to Mayor per Charter Deadline by July 3
- Mayor's recommendations/comments and Proposed Budget released to City Council per Charter Deadline by August 2
- Budget Hearings, Budget Oversight Committee (BOC) Meetings and 2<sup>nd</sup> Round of Community Engagement in August
- Budget Adoption in September

# Grow Long Beach

# Grow Long Beach Economic Update

## Update Anticipated April 9, 2024

- Grow and Diversify our Economy
- 5 targeted industry sectors
  - Aerospace/Aviation
  - Transportation, Logistics, & Supply Chain
  - Health and Wellness
  - Tourism and Hospitality
  - Education
- Small Business is Big Business
- Talent, Talent, and Talent
- Leveraging Partnerships
- Diversify City Revenue Streams



# Grow Long Beach: Economic Opportunity, Equity, & Resiliency

- The Grow Long Beach Initiative propels economic development and explores alternative revenue streams for the City to move away from reliance on oil revenue
- The FY 24 Budget included significant one-time and structural investments to support the Grow Long Beach Initiative including:
  - *Development of a proposed downtown advertising district*
  - *Increase promotion for convention, tourism, and special events through the Visit Long Beach advertising campaign*
  - *Marketing and branding strategy centered on business attraction, expansion, and retention activities*
  - *Queen Mary development and management*

## Grow Long Beach: Ballot Measures Could Mitigate Projected Shortfall & Make New Investments

- FY 26 Projected shortfall unlikely to be solved without intervention. Service reductions targets anticipated to balance the budget in coming years.
- City making a strong and focused effort on action steps to identify new revenues with direct investments in the FY 24 Budget.
- Potential local ballot measures could mitigate shortfall and allow for opportunity to enhance critical service priorities.
- FY 25 budget process will start to identify potential enhancements that strengthen high-priority core services if additional revenue is made available.

A nighttime photograph of a city skyline reflected in water. The skyline includes several tall buildings, some with lights on, and palm trees. The water in the foreground is dark, and the lights from the buildings and streetlights create bright, colorful reflections. A semi-transparent white box is overlaid on the left side of the image, containing the text "Thank You".

Thank You